The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REAL ESTATE ACTIVITY

In January our national real estate activity index slipped just a notch from 39.5 points above normal. This slight decline still left the index several points above its January 1950 level. As could be guessed, the activity level of most cities making up our index was also above the January 1950 level. There are a few cities where the present level of real estate activity is below the January 1950 level. The five that have suffered the greatest drops are Atlanta, Cleveland, Columbus, Minneapolis and St. Louis.

As credit restrictions and material shortages begin to chew harder at the real estate market, brokers will have to fight harder for sales. We have already pointed out several very good reasons for buying a home today. New or stricter credit restrictions may be imposed at any time, thus making present-day terms attractive by comparison. Moreover, the price of real estate is virtually certain to go up with continued inflation and any worth while price drops are certainly not foreseeable. The broker should also learn everything possible about processing VA, FHA and conventional loans. He should do this in order to coordinate as many different steps of the process as possible. He should make it as easy for the mortgagee as he can. He should get familiar with the credit restrictions. There's no sense in trying to sell a new $10,000 house to a buyer who can only dig up $1,000 cash. Furthermore, the broker should check the credit standing of his prospects and take this information to the mortgage lender very early in the deal. There's no use wasting time on a prospect that can't get financing. This is all ABC to any experienced broker, but the welter of new regulations makes it a lot tougher to carry through, especially when the regulations are unfamiliar. That is why we strongly recommend that brokers learn them as well as possible.

Tax advantages of real estate ownership and home purchasing should also be thoroughly understood by the broker and thoroughly explained to the prospect. There are few real estate sales that are not influenced one way or another by Federal tax liability. Incidentally, the National Institute of Real Estate Brokers has published a special tax bulletin for its members. The title is "Tax Savings in Real Estate Transactions." The bulletin is free to members of NIREB and sells for $5.00 to non-members.

REAL ESTATE MORTGAGE ACTIVITY

During January the mortgage business apparently picked up a bit. Our national index rose from 201.5 to 205.4. This rise, although barely perceptible, is at least temporary encouragement. We continue to believe that the real estate business and the mortgage business are

going to be pretty good in 1951.

CONSTRUCTION ACTIVITY In spite of material shortages and credit controls the nation's home builders continue to set new records. Their latest is the number of housing starts in January 1951. The total of 87,000 is the largest for any January in the nation's history.

On the other hand, these figures may turn out to be an overstatement. As we all know, the housing "starts" estimates are based on the number of new residential units covered by building permits. Merely taking out building permits certainly requires no financing and no building materials. In addition, the builder is not committed to start just because he buys a permit. The construction industry has been backed a little deeper into a corner by the Regulation X amendments of February 15. Actually the dominant control over commercial construction is the Department of Commerce licensing requirements (governed by availability of materials). The new credit regulations on commercial building place another road block in the builder's path.

As we have indicated, the builder's chief problem so far has been material shortages, but the credit noose is drawing tighter. By mid-year it will probably be uncomfortable. The relief that is to come from construction of defense housing will not amount to much in most areas until the loan limit of $8,100 per unit is raised. This figure is on the low side to encourage much housing in most areas, and costs are still moving up.

GENERAL BUSINESS Like almost everyone else in the country, we consider ourselves experts on military and foreign affairs. We also have some very strong views on these subjects. However, these bulletins are supposed to deal primarily with domestic and economic matters, so we have tried not to inflict these views on our subscribers. We have, therefore, been content to let Messrs. Marshall and Acheson go their own way, with little more than an occasional glance in their direction. We

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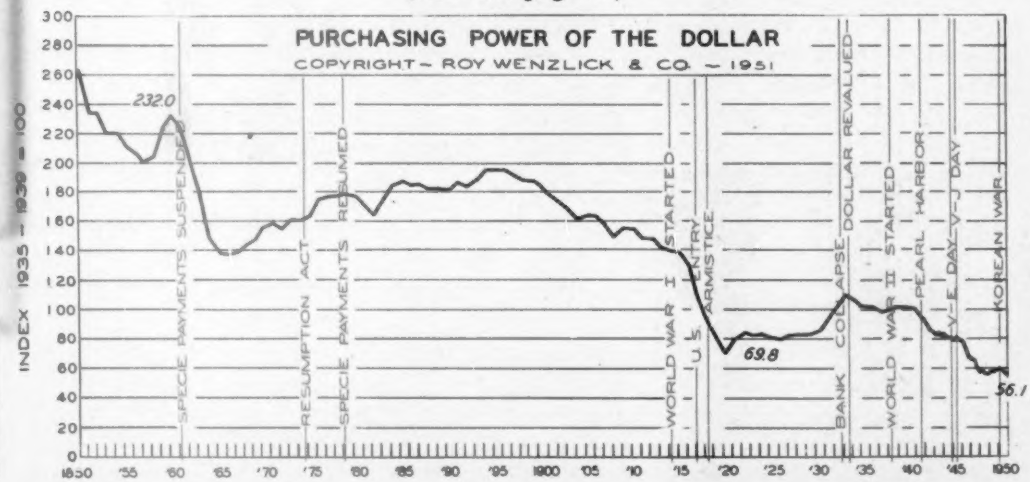

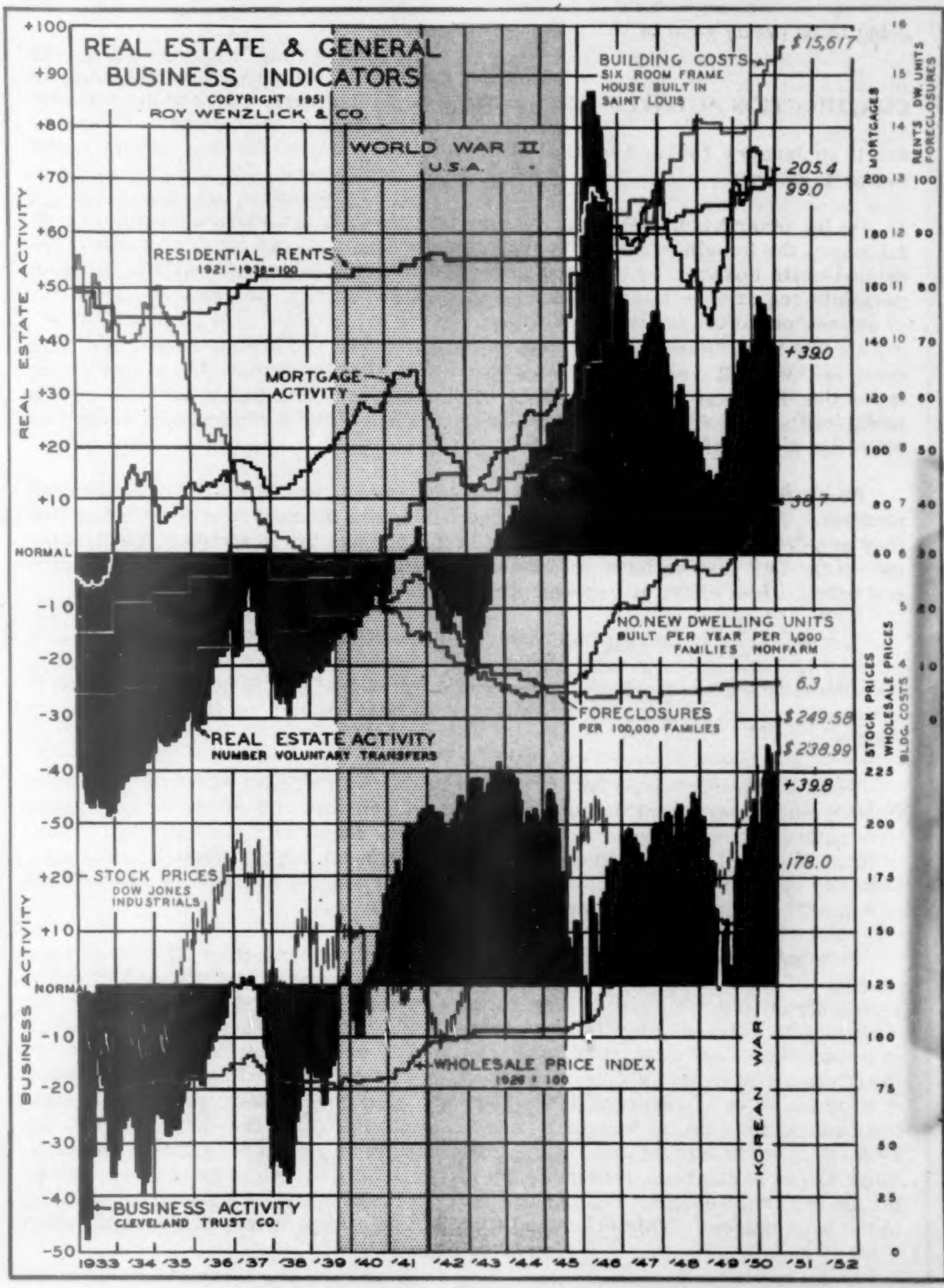

REAL ESTATE & GENERAL BUSINESS INDICATORS
COPYRIGHT 1951 ROY WENZLICK & CO.
WORLD WAR II U.S.A.
BUILDING COSTS SIX ROOM FRAME HOUSE BUILT IN SAINT LOUIS
$15,617
RESIDENTIAL RENTS
MORTGAGE ACTIVITY
205.4
99.0
+39.0
38.7
NO. NEW DWELLING UNITS BUILT PER YEAR PER 1,000 FAMILIES NONFARM
6.3
FORECLOSURES PER 100,000 FAMILIES
REAL ESTATE ACTIVITY NUMBER VOLUNTARY TRANSFERS
$249.58
$238.99
+39.8
178.0
STOCK PRICES DOW JONES INDUSTRIALS
WHOLESALE PRICE INDEX
KOREAN WAR
BUSINESS ACTIVITY CLEVELAND TRUST CO.
REAL ESTATE ACTIVITY
BUSINESS ACTIVITY
NORMAL
MORTGAGES
RENTS DW. UNITS FORECLOSURES
STOCK PRICES WHOLESALE PRICES BLDG. COSTS
1933 '34 '35 '36 '37 '38 '39 '40 '41 '42 '43 '44 '45 '46 '47 '48 '49 '50 '51 '52

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may not continue to be successful, but we hope to keep these pages free from the disputes that form the basis of the "great debate" and to confine our comments to the less spectacular subjects of inflation, price controls, fiscal policy, credit, taxation, etc.

In the December 1950 issue of the Real Estate Analyst we wrote that it would be unwise to resort to price controls before making a determined and courageous effort to curb inflation at its source. We also warned against being panicked into making any fundamental changes in our economy. These remarks were made more for the purpose of going on record than with the hope that our advice would be followed. Substantially the same may be said for the following.

Certain policies that the government has followed and certain events that have occurred since Korea have been deflationary. Other policies and events rising from them have had the reverse effect. Our battle against inflation has been poorly mobilized and generally at cross purposes. Much of the government's action has given aid and comfort to the "enemy."

Combating inflation in an economy as complex as ours is naturally an involved process. This does not mean that the mechanics are difficult to understand or that they are difficult to put into effect. In fact, they are fairly simple. The trouble lies in the fact that we have not made much effort to understand these mechanics and only a token effort at implementing them.

The deflationary factors that have come into being since Korea are the various credit regulations (consumer, housing and bank) drawn up and administered by the Federal Reserve; the drain on the United States gold supply (gold is now leaving the country at an annual rate in excess of $3 billion); and the first-round tax increase.

These factors have been far outweighed by the psychological effect of the Korean fighting and government discussion of direct controls and excise taxes. These have naturally caused consumers to rush in to buy nearly all types of goods. This, in turn, has led to much higher inventories, financed largely through bank loans. Possibly of even greater importance in the fight against inflation is the increase of some $3 billion in our money supply.

This increase has come from the Federal Reserve's reluctant practice of supporting the government bond market. All of us are more or less familiar with the rather dignified battle going on between the Federal Reserve and the Treasury. The Treasury is in favor of low interest rates on government obligations, and one way to assure these low rates is to "peg" the market value of government bonds. Although opposed to this policy, it is the duty of the Federal Reserve to prevent a drop in the value of government bonds, which is simply another way of saying that the Federal Reserve is forced to keep bond interest rates low. The fact that the Federal Reserve follows this policy against its better judgment is beside the point. Since Korea it has been necessary for the Federal Reserve to print more than $3 billion in new greenbacks in order to carry out the program of maintaining stability in the bond market. This enormous supply of additional money has been the chief
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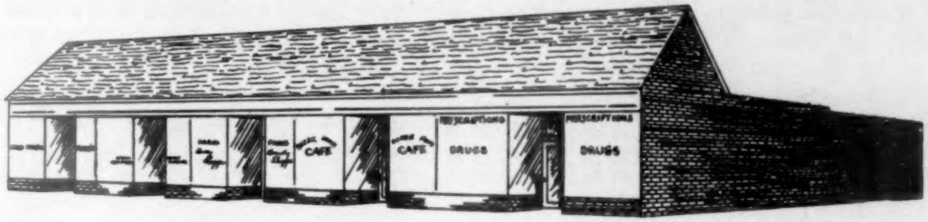
INCREASES IN BUILDING COSTS SINCE 1939

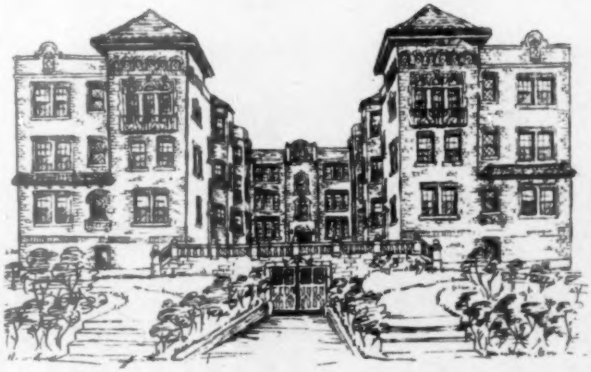
(SAINT LOUIS)

February 1951



COMMERCIAL BUILDING - NO BASEMENT
Content: 115, 850 cubic feet
8, 075 square feet
Cost today: $48, 689
(42. 0¢ per cubic foot; $6. 03 per square foot)

18-FAMILY BRICK APARTMENT
(FRAME INTERIOR)*
Content: 168, 385 cubic feet
13, 260 square feet
Cost 1939: $ 60, 300
(35. 8¢ per cubic foot; $ 4. 55 per square foot)
Cost today: $153, 009
(90. 9¢ per cubic foot; $11. 54 per square foot)
INCREASE OVER 1939 = 153. 7%



30-UNIT REINFORCED
CONCRETE APARTMENT*
Content: 303, 534 cubic feet
21, 372 square feet
Cost 1939: $135, 000
(44. 5¢ per cubic foot; $ 6. 33 per square foot)
Cost today: $324, 551
($1. 07 per cubic foot; $15. 19 per square foot)
INCREASE OVER 1939 = 140. 4%

***Costs include full basement.**

CONSTRUCTION BY TYPE OF UNITS FINANCING BY AREAS OF THE UNITED STATES FOR 1949 AND 1950

By financing

Divisions	Total	Private	Federal
		1949	
New England	34, 527	26, 022	8, 505
Middle Atlantic	117, 974	96, 120	21, 854
East North Central	104, 785	103, 268	1, 517
West North Central	41, 914	41, 914	-
South Atlantic	84, 304	84, 304	-
East South Central	31, 143	30, 969	174
West South Central	75, 748	75, 748	-
Mountain	24, 144	24, 056	88
Pacific	92, 795	92, 737	58
Total	607, 334	575, 138	32, 196
		1950	
New England	46, 822	37, 997	8, 825
Middle Atlantic	139, 003	128, 674	10, 329
East North Central	158, 400	156, 387	2, 013
West North Central	64, 126	62, 190	1, 936
South Atlantic	101, 170	97, 719	3, 451
East South Central	42, 062	38, 644	3, 418
West South Central	112, 608	111, 332	1, 276
Mountain	36, 689	36, 014	675
Pacific	127, 895	126, 734	1, 161
Total	828, 775	795, 691	33, 084

By type of units (private only)

Divisions	Total	One-family	Two-family	Multi-family
		1949		
New England	26, 022	22, 813	1, 296	1, 913
Middle Atlantic	96, 120	45, 247	3, 923	46, 950
East North Central	103, 268	89, 371	2, 824	11, 073
West North Central	41, 914	31, 689	1, 402	8, 823
South Atlantic	84, 304	51, 797	4, 815	27, 692
East South Central	30, 969	22, 231	1, 824	6, 914
West South Central	75, 748	64, 743	3, 144	7, 861
Mountain	24, 056	21, 563	980	1, 513
Pacific	92, 737	63, 969	6, 212	22, 556
Total	575, 138	413, 423	26, 420	135, 295
		1950		
New England	37, 997	34, 588	1, 131	2, 278
Middle Atlantic	128, 674	79, 505	4, 659	44, 510
East North Central	156, 387	132, 300	3, 790	20, 297
West North Central	62, 190	52, 133	2, 019	8, 038
South Atlantic	97, 719	71, 315	5, 497	20, 907
East South Central	38, 644	29, 647	2, 544	6, 453
West South Central	111, 332	94, 182	5, 781	11, 369
Mountain	36, 014	31, 174	1, 535	3, 305
Pacific	126, 734	98, 528	6, 361	21, 845
Total	795, 691	623, 372	33, 317	139, 002

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source of our recent inflation, although the aforementioned psychological factors cannot be overlooked.

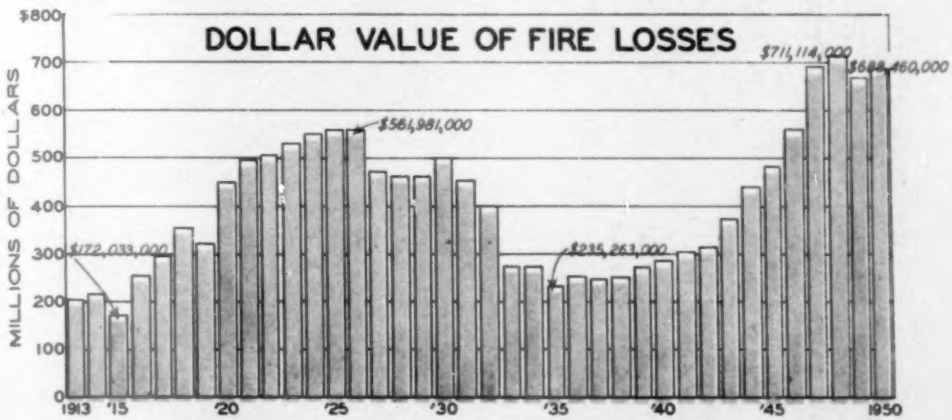
It is pretty cold comfort to read that Mr. DiSalle figures to have prices stabilized in six months. But if the present conflicting line of deflating on Monday and inflating on Tuesday is followed, we would say that his estimate of six months is highly optimistic.

There just isn't any painless or popular way to pull the country out of its inflationary spiral. It requires higher taxes, curbs on credit, decreased government handouts. All three of these measures are unpopular and some of them might get to be pretty painful.

Roughly here is the picture. Our civilian economy is running at close to capacity. Incomes are higher than ever before and still moving up. Now here comes a big defense program. Nobody is sure yet just how big, but all of a sudden we have to turn out droves of airplanes, tanks, guns and other bits and pieces of war material. Since our labor supply and our production facilities are at work turning out civilian goods, the only place we can get our defense production is to take men, materials, plants and tools from the civilian industries and put them to work on defense orders. This means less civilian goods, but an equal amount of income, and perhaps even higher income.

So long as there will be less goods the only way to keep prices from rising is to soak up the so-called excess purchasing power by heavier taxes. These heavier taxes must be accompanied by decreased government spending in non-military fields and tight control over business and consumer credit.

Present efforts by the government planners are aimed at a rapid increase in productive capacity. The hope is that the country will soon be able to turn out something like $50 billion worth of armaments per year while running civilian production at the 1950 pace. Needless to say, this program will have a tremendous impact on all phases of our economy. Its first effect will be inflationary because man-



power and materials will have to be diverted from productive jobs to the temporarily unproductive jobs of providing new plants. Its later effects will be observed and discussed in subsequent bulletins. At present, however, there are two things about this scheme that cause us a good deal of anxiety. The first is the almost fantastic notion that it can be done at all. It simply doesn't make sense that in a year or two we can have all the civilian goods we had in 1950 and at the same time allocate $50 billion per annum to our military budget. The other cause of our anxiety is the feeling that in attempting to carry out this plan the government will tie up the entire country in an impossible maze of directives, priorities, allocations and restrictions. Very few of these controls will work satisfactorily, and it will take years to get rid of them, if indeed we ever do.